United States Department of Agriculture

Office of Governmental and Public Affairs

Major News Releases and Speeches

Feb. 19 - Feb. 26, 1982

IN THIS ISSUE:

Speeches

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Remarks prepared for delivery by Mary C. Jarratt, Assistant Secretary for Food and Consumer Services, before the National Cattlemen's Association, San Antonio, Texas, Feb. 1, 1982

POLICY ISSUES FOR AGRICULTURE IN THE EARLY EIGHTIES

It's a pleasure to join your Farm and Food Policy Conference today. Jim Shaffer and Vernon Sorenson asked me to map out the critical issues that lie ahead for U.S. agriculture, and to explain how USDA is likely to respond to those issues.

Frankly, I doubt that I can make a map of the future as good as the plan for Michigan agriculture drawn up last year in response to Gov. Milliken's challenge. Even pinpointing the critical issues is tough to do in the abstract. Issues never exist in a vaccuum, or fall into neat compartments. They arise directly from the ferment of events, and are modified as conditions change. About the best I can do is identify some possible issues in the context of our current assessment of the prospects for 1982 and beyond.

How does USDA plan to respond to pending issues? Here again, there are no answers in the abstract. Judgement and the need to balance political and economic realities always play a part. However, this administration does have a well thought-out, coherent philosophy on agricultural matters. It provides some important signposts to our priorities and future actions.

ADMINISTRATION VIEWS ON AGRICULTURE

This philosophy was the basis of the administration's farm bill submitted to Congress last spring. Dr. Sorenson has just ably explained to you the Agriculture and Food Act of 1981. Although necessarily a compromise, it nonetheless preserved many features of the administration bill.

Let's consider the philosophical starting place.

The Reagan Administration believes that the marketplace should function properly again. Farmers, not Government, belong in the

tractor seat. Accordingly, the level and complexity of Government must be reduced, though not eliminated.

Farm programs do have a legitimate function. Weather, unpredictable changes in trade demand, and the collective effects of individual decisions create a potential for sudden supply imbalances not found in other sectors. Farm programs should be used when necessary to get us through such periods. They should not be used to artificially stimulate production, tamper with market signals, or reward inefficient producers. Nor can we expect government to assure every farmer a profit each year. Finally, farm programs, like other federal activities, must be affordable.

To achieve these aims, the secretary requires great flexibility in designing farm programs each year and in administering them in line with economic conditions. He, like you, must be ready to respond to change. Likewise, producers need an optimum measure of freedom. Farm programs should be as simple and unrestrictive as possible. Government regulations that affect agriculture should be carefully reviewed and kept to a minimum.

In asking our producers to seek their returns from the market, the government takes on the responsibility of helping assure access to all market outlets.

Finally, this administration has pursued its farm policies as part of a larger program to restore the health of the economy. In important respects, farming is similar to other businesses. It cannot thrive when the economy is out of order.

There are no shortcuts to a sustainable economic recovery. The president's economic recovery program holds the long-term key to strengthening market demand while reducing interest rates and inflation. These are essential to improve farm income.

Holding the line on government spending has meant sacrifice for many. We had to keep the projected cost of the 1981 farm bill within very tight bounds. On the other hand, the Economic Tax Recovery Act has reduced the tax burden on individuals, accelerated depreciation timetables, and liberalized inheritance tax provisions. In addition, tax changes will help restore the healthy investment climate which is needed to stimulate productivity.

CURRENT ISSUES AND THEIR IMPLEMENTATION

A number of current issues are putting the administration's farm policy to the test. The most pressing issues are what to do about large supplies, low prices, and the state of the economy. Meanwhile, conflict over Poland has cast a shadow over trade relations with the Soviet Union.

HOW DO WE BALANCE SUPPLIES WITH MARKET NEEDS?

Thus far, 1981/82 has been dominated by the combination of large supplies from record harvests and weakened demand both here and abroad. To pull prices up, we must tighten supplies.

We are estimating that 1981/82 world grain production, including wheat, rice and coarse grains, rose more than 4 percent from last season. The United States accounts for almost all of this 64-million ton increase.

Unfortunately, world grain consumption may rise just over 1 percent in 1981/82, held well under the 3-percent rate of growth of the last two decades by economic slowdowns in many countries.

The world's grain trade volume is expected to grow modestly, with wheat trade rising sharply due to the third poor Russian crop in a row and smaller output among wheat importing nations. However, global trade in coarse grains and rice is forecast to decline.

World oilseed production, recovering from last year's slump, could nearly match the 174-million ton record of 1979/80. Global cotton output advanced strongly. Oilseed and cotton consumption are being restrained by economic conditions.

World carryout stocks are forecast to accumulate sharply. However, relative to annual use, the carryover levels aren't high by historical standards. Outside the United States, grain stocks won't end up much different than last year, and foreign soybean stocks will be down. The problem is that nearly all the stock buildup is taking place in the United States.

To reduce the impact of large carryovers, Secretary Block opened the farmer-owned grain reserves for immediate entry of 1981 wheat and feed grains. We foresee entry of nearly 1.3 billion bushels of corn and over 500 million bushels of wheat by the end of the season. This, plus CCC holdings, would isolate about two-thirds of the season's wheat and

feed grain carryover stocks from the market. In fact, the remaining so-called "free supplies" of under 30 million tons of U.S. grain would be the smallest in 3 years.

HOW QUICKLY WILL THE ECONOMY RECOVER?

The success of the United States as well as of other industrial countries in prompting economic recovery this year will determine how quickly demand for farm products recovers.

A number of forecasters predict recovery from recession for the U.S. economy in the second half, stimulated by a lower level of inventories, the 10-percent tax cut, lower inflation and stable oil prices. Foreign industrialized economies also are expected to recover somewhat from a sluggish performance, with much of the improvement also in the second half of this year.

The strong U.S. dollar relative to other currencies continues to hold up prices of U.S. farm goods to foreign buyers. That's one reason why we recently lowered our forecast of U.S. farm exports for fiscal year 1982 from $45 billion to $42½ billion.

HOW DO WE REIN IN 1982 CROPS?

Even as demand starts to recover, smaller 1982 crops will be needed to offset large 1981 supplies and to improve prices. The new farm act enables the Secretary, when necessary, to choose among set-aside, acreage reduction, and paid land diversion options.

By announcing a program of acreage reduction, the secretary chose a moderate course of action. Participation in the program is voluntary. Producers have the option to swap the required reduction in base acreages for the guarantees of 1982 nonrecourse commodity loans, target price protection, and access to the reserve program.

While it is always difficult to predict the amount of producer participation, Secretary Block increased the reserve loan levels more than usual in order to encourage producers to take advantage of the programs. Signup period for the 1982 programs runs until April 16.

Participating wheat and feed grain producers will be able to enter crops directly into the farmer-owned reserves. The regular loan will be $3.55 per bushel for 1982-crop wheat and $2.55 for corn. Reserve loan rates are $4.00 per bushel for wheat and $2.90 for corn. Participating

producers will also be eligible for target price protection of $4.05 per bushel for wheat and $2.70 for corn.

Our forecasts of world sugar supply, demand and stocks point to continued relatively low prices in 1982. Prices could improve some from present levels, but much depends on the size of this year's crops. The planting intentions report suggests that U.S. farmers plan to cut back plantings of sugar beets about 7 percent.

U.S. sugar continues to face intense competition from other sweeteners, especially high fructose corn sirup (HFCS). Per capita sugar use last year of 80 pounds was down 5 percent from a year earlier and down over a fifth from 10 years before. Meanwhile, HFCS consumption increased more than 20 pounds per person during the decade, reaching 23 pounds in 1981.

WILL LIVESTOCK MARGINS IMPROVE?

Meat supplies are falling from recent record highs and livestock prices are strengthening, although some of the rise reflects the recent severe winter. Reduced feed prices and larger forage stocks, combined with rising livestock prices, are improving feeding margins. However, higher livestock prices will be needed to offset rising costs and to restore black ink for producers.

Later this year, meat supplies are expected to tighten and prices should rise. Price gains will depend on the strength and speed of the economic recovery and consumer purchasing power.

At this early stage in 1982, it appears likely that the dairy surplus problem will persist, at least for the next several months. Low feed prices and low utility cow prices are keeping output above last winter.

This administration is not anti-dairy. We are quite concerned about current trends. In this regard, the 1981 farm act calls for a comprehensive study of the price support program for dairy products. In addition, as many of you know, the vice president's task force for regulatory relief has called for a comprehensive review of milk marketing orders. We plan to look at these two interrelated issues in one broad combined study. Our plans are to launch this effort shortly.

ASSISTING FINANCIALLY TROUBLED FARMERS

We are keenly aware of the cash flow crunch that is currently plaguing farmers. Adequate credit remains available for those able to borrow. However, farmers who are already highly leveraged, or those with a small equity base, may have difficulty getting needed funds.

Representatives of the agricultural lending community have assured Secretary Block that they will go the extra mile to help threatened farm businesses pull through this period. The secretary, in turn, has directed the Farmers Home Administration to work closely with delinquent borrowers, and to target its lending to farmers who can't get credit elsewhere. We boosted funds for this type of lending by one-half billion dollars for this fiscal year.

This year should bring farmers some relief from escalating costs. Farm input costs will ease, with inflation down to the 6 to 7 percent range. This, plus a smaller volume of inputs used, could result in the smallest increase in production costs since 1975.

Unless market prices improve significantly in 1982, there will be continuing pressures from a number of sources for legislative remedies. Thus, I would not be surprised to see a number of bills introduced in the Congress designed to give farmers some relief from the current price-cost squeeze. However, given the current pressures on the budget, it is unlikely that any of these proposals will be adopted in the current environment.

WHAT ABOUT TRADE WITH THE SOVIET UNION?

Tensions over Poland have raised concern over a possible trade embargo.

The administration's views on the wisdom of a trade embargo with the Soviet Union boil down to this:

- We are determined to be a reliable supplier in the future. This administration will not impose another embargo that singles out agriculture.

The 1980 embargo of the Soviet Union did not succeed, and was costly, especially for farmers. The price tag to the nation of another embargo would be huge.

- Unilateral agricultural embargoes just don't work because the embargoed country can too readily find alternate suppliers. As a foreign

policy tool, a sanction that doesn't work is worse than none at all. All past U.S. embargoes, even the shortlived one on soybeans in 1973, have injured our trade position. They have spurred our buyers to strengthen ties with our competitors, who in turn are encouraged to expand output.

- Still, it is conceivable that conditions making necessary a total embargo of Soviet trade could arise. However, Secretary Block and President Reagan agree the circumstances would have to be dire, with our national security at stake. Even then, a trade embargo would be one of the last sanctions applied.

Leaving aside the extreme case of a total embargo, what is the future of our trade with the Eastern Bloc? Among a number of sanctions President Reagan applied to the Soviet Union in response to declaration of martial law in Poland was postponement of talks for a new long-term grain trade agreement to replace the one that expires Sept. 30. At the same time, talks for a new U.S.-Soviet maritime agreement were suspended, license requirements for exports of high-technology goods were tightened, and the Russians were asked to close an office that facilitates purchases of U.S. manufactures.

The Soviets did not purchase U.S. grain and other products for a while. But now they are back, having just made several purchases of U.S. corn for 1981/82. This has raised their purchases under the sixth agreement year to 11.3 million tons—5.5 million tons of corn and 5.8 million tons of wheat. We hope that further purchases will be made.

Soviet import requirements will remain large for the next several years, even if their harvests return to normal. The U.S. has ample supplies to meet these import needs. In the meantime, abundant supplies of meat and poultry on the world market have encouraged stepped-up Soviet meat imports.

Looking to the longer view, we're hopeful that political tensions between the Soviet/Eastern Bloc countries and the United States will ease and that more normal trading relations can be restored. At this point in time, it seems rather clear that the Soviet Union and Eastern Europe will continue to consume feedstuff supplies in excess of their own ability to produce. While near-term financing is a problem, especially for Poland and several other East European nations, if these problems can be addressed in a more stable political environment, trade

prospects between the United States and the Bloc countries should improve.

Regarding the efforts of some to try to interrelate trading with foreign policy issues, this is likely to continue to be a difficult problem with which the agricultural community will have to deal. Many in the United States attach less importance to the role of exports in our national well-being and, therefore, seem more willing to make tradeoffs in order to achieve certain foreign policy objectives. Thus, I see a major task ahead for those of us interested in the longer-term welfare of agriculture. We need to continue to stress the benefits that are derived, not only to farmers but to the rest of our nation, from expanding foreign trade. I lay this problem out as a continuing challenge for the future.

HOW CAN TRADE EXPANSION BE ENSURED?

This administration has stepped up the emphasis on trade, and especially farm trade issues. Secretary Block has strongly emphasized the need to aggressively expand farm exports. He has already served as a personal ambassador for the American farmer in a number of export-related missions and has increased funding for USDA export promotion activities. The new farm law provides for a revolving fund for export credits which can be initiated when money becomes available.

WHAT ARE THE OPPORTUNITIES FOR EXPANDING EXPORTS OF PROCESSED PRODUCTS?

Traditionally, promotion has concentrated on bulk raw agricultural commodities. Yet the world market for highly valued products is growing by 12 to 15 percent a year. Included are certain highly valued unprocessed products such as fresh fruits and vegetables, semi-processed products, and highly processed products.

Trade in processed products is generally more stable than in bulk commodities, and generates far more U.S. jobs. Benefits accrue to regions like your own with established processing facilities, as well as to grain, livestock, and many other farmers.

USDA has taken a stronger interest in the export of highly valued and processed products, but we recognize that in a number of countries barriers against these categories of farm goods tend to be more

restrictive than for raw commodities. In some instances, export subsidies imposed by our competitors complicate the picture.

HOW CAN WE LOWER TRADE BARRIERS?

The long smouldering issue of farm trade barriers has recently heated up. One of our most serious areas of concern centers on the European Economic Community. In addition to the internal barriers to imports from the U.S. and others, the EC subsidizes exports of surplus production that stem from high internal farm price guarantees. For example, the EC has just proposed raïsing internal farm prices by 9 percent on the average. The impact of subsidies has grown much worse recently.

In the last 5 years, EC grain export subsidy costs rose fourfold to $2.2 billion. Wheat exports jumped by 7 million tons, displacing sales that otherwise might have gone to traditional wheat exporters.

During this period, EC sugar output rose nearly 2 million tons, but consumption stayed the same. Subsidized exports rose from 2.1 million to 4.5 million tons. World market prices are now depressed, and the U.S. has been obliged to begin its own sugar purchase program.

It's the same story for poultry, beef, and dairy products. For example, EC poultry exports now account for a third of global trade in this commodity, and have slowed our own poultry export growth.

To counter this problem, we are developing a trade strategy at the Cabinet level, and pursuing it forcefully. There are several elements. One is to vigorously pursue legitimate trade complaints through Section 301 and GATT machinery. A number of cases are already well underway.

Another is to make it clear to our trading partners that we cannot tolerate unfair subsidies in third markets. Nor will we continue to allow a lack of trade reciprocity such as that we experience with Japan. One of the leading participants in this campaign has been Secretary Block, who since May has met frequently with top officials from the EC and other leading trading nations.

If equity cannot be achieved this way, a growing number of proponents advocate instituting a policy of reciprocity, affording our partners treatment only as generous as that we receive. We recognize that there is a line to be drawn between insistence on equity and

protectionism. However, if necessary, we are prepared to make this a priority issue.

Our trade partners know this. It's significant that Japan has just taken the first step toward allowing greater access to imports. Farm products weren't included, but we believe that further accommodations are possible.

LONG-TERM PROSPECTS AND ISSUES

Looking beyond the issues likely to press us in the months ahead requires an assessment of the prospects for agriculture during the next few years. To gauge those prospects, USDA has been working on a set of baseline projections of world supply and demand under different assumptions about weather, population, and economic growth.

Two striking conclusions emerge from these medium-term projections.

FARM-PRODUCT DEMAND WILL RECOVER. The first is that world agricultural demand, and especially import needs, have considerable potential for expansion, although the rate of growth may not quite match that of the past two decades.

Population growth is slowing but continues to exert strong pressure on food needs in developing countries. In a small group of middle-income developing countries, rapidly rising incomes are propelling food demand at a much faster rate. Food demand in developed countries will be strengthened by gradual improvement in economic performance over the next few years. However, economic growth is not expected to match the rates of the seventies, and unemployment problems will persist.

The slowing in petroleum consumption and prices is likely to continue. In fact, U.S. and free-world oil use is declining. Even if Saudi Arabia reduces oil output, Iran and Iraq will be forced to maintain high production for the next few years, pointing to relative price stability. Thus, although a number of factors indicate moderate demand growth, weaker market prospects for petroleum will be a positive source of demand in the world economy.

Foreign agricultural production is likely to grow somewhat less rapidly than in the seventies. If foreign demand continues to outpace growth in output, the gap between foreign output and consumption will

widen, and the demand for U.S. farm products will strengthen. Even so, our share of world farm commodity trade will be difficult to maintain in the face of competition from other exporters.

VARIABILITY WILL BE A CONTINUING PROBLEM. The second major conclusion is that variability in world food supplies, demand, and prices is likely to continue. Forces that have buffeted farming for the past few years have a high probability of recurring in the future.

There are several reasons why. Farmers in many countries are expanding cultivation into more marginal areas where climate may be more unstable. This magnifies the vulnerability of crop output to weather variations.

Meanwhile, global economic performance has been shaken by high oil prices, the emergence of a competitive new industrial base in middle-income developing countries, and by national economic policies that attempt to delay the adjustment process or shift its costs to other countries.

Finally, growing international trade makes farm prices increasingly sensitive to fluctuating exchange rates and international political tensions.

As the leading source of farm commodity exports and the major holder of commodity stocks, the U.S. is already particularly vulnerable to swings in trade demand and prices. When the magnitude of these changes increases, short-term adjustments become acute.

The longer term prospects give rise to several clusters of issues.

WHAT ARE THE IMPLICATIONS OF GROWTH?

For example, periods of strong export growth bring up a number of questions related to increasing production. Expanding output beyond its present level will place added demands on soil and water resources. And the issue is not just coming up with more output, but doing so at competitive prices. Expanding the cropland base and irrigated acreage from present levels will require large investments per acre. Additionally, when markets are volatile, the cost of risking added resources for expansion goes up. These factors place a premium on raising yields and productivity. And that raises questions about the adequacy of our agricultural research establishment.

An inescapable reality is that budget reductions are cutting into phases of government involvement in agriculture beyond commodity programs. You can be sure USDA continually reviews its priorities in order to target limited resources effectively. Within these limits, more money has been allocated for agricultural research.

WHAT'S THE BEST APPROACH TO CONSERVATION?

We are also developing means for targeting soil conservation dollars. The National Resources Inventory conducted in 1977 by USDA gives us an opportunity to identify where assistance should be focused.

That inventory, coupled with records of cost-sharing assistance, showed many conservation dollars being spent on land with little erosion potential while problems on 5 percent of the land causing 60 percent of the soil loss were largely unchallenged. Targeting more assistance has therefore emerged as a key recommendation of the new Resources Conservation Act study. Two strategies endorsed in the new farm act are compensation of farmers in critical erosion areas who place land in less erosive cropping systems and giving some help for conservation tillage.

HOW CAN WE IMPROVE MARKETING TOOLS?

One of the issues that I believe needs more attention relates to the efficiency of marketing agricultural commodities. In this connection, last year the administration took a hard look at federal marketing orders for fruits, vegetables, and specialty crops. This study was followed by a set of guidelines announced by the Secretary of Agriculture in January of 1982 to ensure that marketing orders reduced Federal regulation, maximized market returns, and achieved more efficient allocation of resources. To meet these objectives, the secretary announced that adjustments will be required in marketing order programs that restrict entry, limit supply, or perpetuate the oversupply of commodities.

In addition, we have been looking at some of the other tools that can be used to reduce the risks associated with the marketing of agricultural commodities. For example, we have raised questions about the use of futures markets, forward contracting, and other marketing devices. Are farmers optimizing the use of these tools to reduce their risks? Are there other marketing devices that should be considered in

the current global economic setting? What about the quantity and quality of economic intelligence available to farmers and is it appropriate to deal with today's marketing problems? What should be USDA's role in this area?

Recently, in gearing up for the reauthorization hearings of the Commodity Futures Trading Commission, we have been looking at whether lifting the ban on the trading of options in agricultural commodities would benefit farmers and other involved in farm products. Our initial conclusion is that the use of options on agricultural commodities might help reduce some of the risks to farmers while at the same time allow for reaping some additional benefits in marketing crop and livestock products. Options also might be a useful device to spread some of the risks facing exporters in dealing with the uncertainty in export markets. We believe a careful examination of these and other tools is appropriate as we address the agricultural issues that lie ahead.

These are some of the priority issues likely to be with us for a while, but are far from a complete agenda of USDA concerns. The department's purview encompasses many other areas such as food safety, food stamps, and rural development. We also implement a variety of regulatory programs.

I hope that my excursion into present and future issues helps you sort out the complex environment in which you must operate. It is an uncertain world we live in, but farming has always been a risky business—which is why it draws such enterprising people. Your efforts to spur Michigan's agriculture to new achievements are an example of initiative for the country to follow. Clearly, the future will hold exciting growth opportunities for enterprising and efficient producers.

#

Remarks prepared for delivery by Secretary of Agriculture John R. Block before the International Poultry Trade Show and Conference in Atlanta, Georgia, Jan. 28, 1982

I want to thank you for inviting me to join you here tonight, in the Hub of the Plains...here on the Texas Tech campus.

If I wanted to sum up this part of the country in just a few simple words, they would be...massive...flat...highly productive...and certainly beautiful. It's hard to believe that Zeb Pike once reported to President Thomas Jefferson that this was an arid wasteland, unsuitable for habitation.

It's obvious that Pike didn't have any idea what kind of Texas men and women would follow him. And I guess we can't blame him too much for his lack of foresight. It must have taken an incredible spirit...a staggering capacity for hard work...and an unbeatable optimism in the minds of the pioneers who settled and tamed this land.

The subject that we have to discuss tonight is unsettling to me. It is unsettling for all of us, because none of us likes to see the trouble that this great American agricultural machine is facing today. But I want to talk to you...and with you...about how we got into this mess, and what we can do about getting out.

We face two main obstacles in our industry. The first is nature...and that makes it a high-risk business regardless of how you look at it. We can accept that. Sometimes we don't particularly care for it...but we accept it.

The second obstacle cannot be accepted. I'm talking about those man-made intrusions that have caused so much hardship among so many of our producers.

The state of the agricultural economy today was created by man. Nature didn't bring us inflation...nor high interest rates...nor regulations...nor tax upon tax. For the most part, nature has been good to us. It gave us sunshine...rains over many parts of the country...and beautiful weather to bring in the crop.

Today the high plains produces 80 percent of all Texas cotton, 40 percent of the wheat, 70 percent of corn and 27 percent of the state's grain sorghum. Not only that, last year you fed nearly 18 percent of all the nation's cattle...and you did it within a 150-mile radius from where we are right now.

We've done such a good job that today we are all faced with near record production figures...but the prices we receive are 20 years old. That wouldn't be so bad if our production costs were the same as 20 years ago, but we all know what has happened. Today you have to pay

more for a tractor than what most people make on their jobs in an entire year.

That brings us to the problems of inflation...and secondly, the cost of money. The truth is that your federal government has been on a spending spree over the last four decades that is unequalled in the history of the world. And no country in its right mind would want to challenge our record.

You and your neighbors have endured nearly four years of sustained high interest rates as a result of the government's deficit-created inflation.

Some of you have not endured!

Another problem has been markets. Not only have past administrations not been active enough in creating new markets abroad for west Texas products... but it has actively destroyed some of the markets that did exist. The Carter embargo was a black, black day here, and you still have not fully recovered.

You don't need me to tell you how bad things are; you face it every morning. So...where do we go from here?

Well—I think we've all learned from history that the solution is not to sit back and hope that the government--already too big—will lead us up that golden path to prosperity. Our solution will not be to whimper...and whine...and groan until someone comes along and picks us up.

In this period of budget cuts, we're going to hear some of the whimpering—(weaning always begats crying) but you won't hear them coming from agriculture. This is not the way your forefathers settled and tamed this land. They attacked the problem...and they left you a great heritage. Now it's our turn!

First let's talk about the offense we're taking against over-production. As you know, I have initiated a reduced acreage program for several of our commodities, and I'm strongly urging participation in those programs. Let me make it clear, though, that I am not generally in favor of production cutbacks—I don't believe in them over the long haul—but we need them on a short-term basis to bring our supply and demand back into line.

Now I've heard some people say that the program won't work...that farmers won't participate...that the program doesn't provide enough incentive.

I'll be blunt, this program was never intended to provide a bonanza—big or small. We don't have the money for that—plain and simple. But it is designed to bring our supply down...and our prices up.

It's take many hours of hard work and persuasion...many days and weeks and months of telling the story of agriculture, whether it be on Capitol Hill or in the Cabinet room. And I can now assure you...Washington is aware of agriculture!

That's why we have the reduced acreage for feed grains down to 10 percent...so there's a greater chance for participation. That's why we have some figures in this program that are even higher than called for in the farm bill.

Cutting back on production will help, but the real solution is to sell our products...sell them domestically and sell them internationally. We need to re-establish ourselves as a reliable supplier. This is going to take time, regardless of how much we talk about our intentions. The only way the world will be convinced of our reliability is for us to be reliable. And we're going to do that!

Our first offense is to target countries where we see the greatest potential for expanding markets. We're sending trade missions (I've been on a few myself) into those countries to lay the groundwork for developing those markets.

Secondly, we are taking a strong offensive against the unfair trade practices of the European Community...and we're doing it with more vigor and more determination than the European Community has ever witnessed.

Another offensive front is being taken with Japan. There's a big market in that country, and there's no reason we can't have a greater share of it. Especially when you consider what we are importing from that country. We're going to push...and pry...and kick the door down if we have to. But we're going to get the job done.

Okay—so we're working on supply, and we're working on demand. But there's another important area that is of major concern to many of you today. I'm talking about cashflow...credit...the cost of money!

First, let me stress that the basic financial strength of agriculture is quite strong. The total value of our industry passed the trillion-dollar mark this year. Our outstanding debt against those assets will approach $200 billion this year. That ratio, from a business perspective, is very favorable.

Of course, that's paper talk, and right now we have too many individual cases where the ratio is not where it should be. Too many of you are between that familiar rock and hard spot.

Let me assure you that President Reagan is fully aware of the situation. Just last week, during his news conference, he said (and I quote): "I don't know of any industry that has been harder hit my the cost-price squeeze than the American farmer."

This is the way the President feels...and this is why we at the department have his full support as we attack the problem.

Just recently I called in the governor of the Farm Credit System... representatives of the Independent Bankers and American Bankers Associations... and I asked them to join with me and the Farmers Home Administration to keep our farmers and ranchers in business. That's just what we are doing. At Farmers Home, our loan-making activity for operating and emergency loans has increased. We can expect this heavy workload to continue through April or May.

Certainly, there will be some casualties...there always are..but I am convinced that there will be far less casualties if we take the initiative...if we go on the attack. We cannot sit back for one moment. We'll get run over the minute that we do.

This is why President Reagan also is not backing away from his plan to bring inflation and interest rates under permanent control. But he has to be given the time to do the things that are necessary.

Let me tell you, what the President is trying to do makes common sense. I don't care whether your're looking at his program from the seat of a tractor... from the fence of a livestock pen or from a desk in the U.S. Department of Agriculture—it makes sense!

It makes sense to cut taxes rather than to increase them! You can invest your money much more wisely than Uncle Sam has in the past.

It makes sense to cut regulation! They've strangled us too long. We all know that.

It makes sense to cut government spending! It hasn't bought anything for us other than a debt that escapes even my imagination.

And it makes sense that it's going to take longer than just a few months to get this country out of the mess that has been building for decades. You understand that, but some people in Washington don't yet. I hope you'll continue to share your good sense with them. I think some of them could use it! Especially now, when so much more has to be done before we're finished.

We need your help...your support! I hope you will join me in helping agriculture chart its own destiny...and help me fight to make it happen!

#

Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Statement by Secretary of Agriculture John R. Block before House Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies Feb. 22, 1982

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you to discuss the work of the U.S. Department of Agriculture and to present our fiscal year 1983 budget proposals.

When I appeared before this committee one year ago, we discussed the terrible toll that inflation and high interest rates were exacting on American farmers. Since that time many significant changes have occurred. We have lifted the grain embargo. We have worked together, long and hard, to enact the reconciliation legislation, restrained appropriations bills and the tax reductions which lay the foundation for our economic recovery program.

Working together we have substantially reduced the rate of growth of federal spending, reduced the tax burden on our citizens and reduced the level of federal involvement in everyone's daily life. The recently passed farm legislation provides me with the tools to protect farmers against extremely low prices yet it moves us another step closer to a reduced federal role in rural America and a free market environment for the farm sector.

These changes have played a substantial part in curbing the rate of inflation. They lay the foundation for our longer term economic recovery. But we cannot ease up. Interest rates and unemployment continue at levels that are far too high. We must extend our efforts to reduce inflation, bring down interest and unemployment rates and encourage private economic activity. The budget proposals I bring to you today are designed to continue this progress toward economic recovery which foreshadows a period of sustained economic prosperity for the nation.

Before discussing these proposals, I would like to briefly describe the current status of American agriculture.

Current Agricultural Situation

The domestic agricultural situation can best be characterized by large crop and livestock supplies and sluggish demand. Record acreage planted for 1981 crops, and excellent growing conditions, have resulted in crop production being up more than 15 percent above the 1980 levels. Total production of wheat, feed grains and soybeans was up almost 2.7 billion bushels from the drought damaged 1980 crop. Upland cotton production was the highest in 28 years, up 4.6 million bales from last year's poor crop. The supplies of livestock products, including meat and dairy products, are also at record levels, but the growth has been less than in the crop sector.

Domestic demand for the abundant supplies of farm products has been sluggish because of slow growth in income, high unemployment and high interest rates. The President's economic program is expected to bring about a change in this situation during the latter part of the year, but for the time being the bearish economic situation has been hitting the livestock sector hard and this translates into weak demand for feed grains. Food and industrial demand for crops has also been lower than expected.

High interest rates have also tended to weaken commodity demand and prices by increasing the cost of holding stocks for processors and other users and increasing farmers' cost of production. Farmers have been under increased pressure either to hold larger stocks, put their grain under loan with the Commodity Credit Corporation, or sell at current low prices.

Not only is domestic demand weak, but growth in foreign demand for our agricultural products will be smaller than in previous years, particularly for feed grains, oilseeds and cotton. The lower export demand is the result of poor economic performance in the rest of the world and the generally high level of agricultural production around the world. Foreign grain production, excluding the Soviet Union, reached a record level this year—up more than 4 percent from last year while consumption is expected to rise only about 1 percent compared with a normal 3 percent rate of growth.

There are several other important factors affecting our agricultural exports. The stronger dollar means that importing countries must pay about 30 percent more for U.S. agricultural products this year than was

paid last year. The high cost of holding inventories and the political instability in Eastern Europe are also affecting export sales. The increased use of subsidies is giving some countries an unfair advantage in capturing new sales, and trade barriers make it exceedingly difficult to gain access to certain markets.

The combined effect of slow domestic and foreign demand in the face of record supplies is causing a build-up of stocks and lower prices and income for U.S. farmers. Even though stocks are large, they are not excessive in relation to consumption requirements. Nevertheless, the current bearish market psychology has unduly dampened prices.

Despite depressed prices, the cash income of farmers is likely to be a record $150 billion in 1982. However, farmers will be faced with increased farm production expenses, largely due to rising costs of fuel and fertilizer and the cost of borrowed capital. As a result, production expenses have been rising faster than income, placing farmers in a cost-price squeeze.

It will take a period of time to work out from the current situation. On the demand side, general economic performance both here and abroad must improve. On the supply side, we have tried to design a 1982 crop program that will lead to higher prices and incomes for farmers. The acreage reduction programs for wheat, feed grains, rice and cotton, together with the higher reserve loans offered under the farmer-owned reserve program, should help to improve the situation if farmers participate in the announced programs. I can assure you that farmers who don't participate will not be eligible for any 1982 crop program benefits.

I am optimistic that we can bring improvement to the agricultural economy. The new Agriculture and Food Act of 1981 provides the necessary authorities we need to move to a prosperous market-oriented agriculture. I am using these authorities to a great extent for the 1982 crop programs. In addition, as the President's economic program takes hold and stimulates economic growth, the demand for agricultural products will increase. The slowing of inflation will also reduce the increase in farm production expenses and lead to an improvement in farm financial conditions. The medium term outlook suggests strong recovery during the second half of 1982 and early 1983.

On the foreign trade side, we are working aggressively to stimulate the long term growth in exports and deal with the numerous trade problems we face. During my recent trips to China, East Asia, Africa and Mexico, the possibilities for expanded agricultural trade were explored. I am optimistic about the potential for increased agricultural export trade with these areas. In addition we are reviewing a number of options to encourage increased private sector initiatives in agricultural trade development.

Over the next couple of years, continued expansion of the crop insurance program will reduce the risks that farmers face as a result of natural disasters. We are also moving in our research programs to address the longer term problem of productivity growth and resource use so that U.S. agriculture continues as a reliable long term supplier of agricultural products throughout our nation and to all the world.

Farm Credit Situation

Another vitally important factor in assessing the status of the farm sector is the credit situation. Despite depressed farm income, the financial position of the farm sector is basically sound. The value of total farm assets, including households, is about $1.2 trillion, which compares to about $200 million in total farm debt. In other words, the debt-asset ratio for the farm sector as a whole is about 17 percent, which compares favorably to other sectors of the economy. Further, the long-range outlook for agriculture looks encouraging. Increases in the value of farm assets should continue to exceed increases in farm debt, and farm income will improve.

Nonetheless, we cannot overlook the fact that many farmers are experiencing credit and cash flow problems. Farmers must be assured that adequate credit resources are available to them as they enter the spring planting season. First and foremost in meeting this challenge, we must not create panic among farmers and lenders by over exaggerating the near-term problems that do exist. Most lenders are finding ways to keep their existing borrowers in business another year. Some of the financing techniques that are being used include the rescheduling of debt payments, borrowing additional amounts on existing assets, and postponing large capital expenditures.

On Jan. 21, 1982, I met with a group of private agricultural lenders and asked them to help coordinate credit assistance to farmers. The group included representatives of the Farm Credit System, the American Bankers Association and the Independent Bankers Association of America. We received their support in helping us to monitor the credit situation and to offer ways to improve commercial lenders' participation in financing Farmers Home Administration borrowers.

I also have established new guidelines to be used in assessing loans currently held by FmHA. These guidelines will be used by FmHA field personnel for loan making and servicing decisions to assist borrowers who have:

—acted in good faith in trying to meet commitments with FmHA;

—made an honest effort to pay, but cannot due to circumstances beyond individual control;

—applied recommended and recognized successful production and financial management practices;

—have a reasonable chance to accomplish the loan objectives; and

—maintained and can account for property used to secure loans.

We are keeping a close watch on the demand for farm loans as we approach the peak application period. The fiscal year 1982 budget provides almost $4 billion for farm loans. We plan to continue this level for the FmHA's portion of farm lending in fiscal year 1983 with increased emphasis on farm operating loans.

Fiscal Year 1983 Budget Proposals

Our budget proposal for fiscal year 1983 totals $23.5 billion in outlays. The total value of programs and services provided by USDA in fiscal year 1983 is estimated to be $45.4 billion. As you can see, the USDA programs will continue to make a major contribution to the viability of the agriculture community and the well being of all Americans.

We must continue our joint efforts to reduce the growth of federal spending. As such, program levels in almost every area of USDA are reduced from 1982 levels. However, in most cases, we can minimize the effects by better targeting and management of our program efforts.

Even with these overall reductions we have provided for increases in a few high priority areas.

Research and Extension

We continue to regard agricultural research as a very high priority. Our nation's rate of growth in plant and animal productivity has leveled off in recent years. We must invest in fundamental research now in order to assure increased agricultural production in future years.

We are requesting an increase of $54 million for agricultural research in fiscal year 1983. This will allow us to either maintain or increase the major programs in the Agricultural Research Service and the Cooperative State Research Service. This provides a clear indication of the priority we place on agricultural research programs even in a very austere budget year. The ARS budget request will provide for 3 percent real growth since fiscal year 1981. ARS is in substantial need of strengthening after a long period of barely keeping even with inflation. We are also requesting an additional $3.6 million for the Hatch and 1890's research formulas in CSRS to help offset inflationary costs. A total of $22.9 million, an increase of $6.5 million, is requested for Competitive Research Grants to provide an adequate base of funding for this program. In the first four years of this program, we were able to fund less than half of the best rated research projects. Many opportunities to make major basic research breakthroughs are now being lost.

For the Extension Service, we have maintained the basic Smith-Lever formula program at the fiscal year 1982 level and are requesting an increase for the 1890's extension formula to meet the new statutory requirements of this program. A number of smaller earmarked programs are proposed for reduction or elimination. States will continue, of course, to have the option of using formula funds for these activities.

Agricultural Exports

We continue to place a very high priority on expanding our agricultural exports because of the substantial contribution exports make to the farm sector and the economy as a whole. Agricultural exports provide about one-fourth of U.S. farm income and every dollar

earned from exporting is more than doubled in business activity in the general economy. Because of the vital role exports play, we are requesting an increase of $4 million, or 11 percent for the foreign market development program of the Foreign Agricultural Service. These funds will be used to provide for real growth in the foreign market development program. Funds are also requested to offset inflation in our other overseas activities. The emphasis of our foreign market development activities will be placed on country/commodity combinations that have a high market expansion potential and that will help reduce the burden on commodity price and income support programs. We are also proposing to continue the $2.5 billion export credit guarantee program and the P.L. 480 program will increase from $1.48 billion in fiscal year 1982 to $1.5 billion in fiscal year 1983.

Commodity Credit Corporation

Fiscal year 1983 outlays for the Commodity Credit Corporation will result primarily from 1982 crop programs, which will be the first carried out under the authorities of the Agriculture and Food Act of 1981. We feel that the new Act gives us the tools to move toward a more market-oriented farm economy. Using authorities of the new Act for the 1982 crops, we recently announced acreage reduction programs, raised regular and reserve loan rates and opened the farmer- owned reserve for immediate entry. We felt that, under the current conditions of a sluggish demand and large crop and livestock supplies, the farm sector needed help.

As you know, CCC outlay estimates are very tentative, because they include assumptions about 1982 crop programs for which decisions were not made at the time the budget was printed. Furthermore, the weather and economic situation both in the U.S. and abroad can change the estimates quite radically.

I would like to take this opportunity to thank the committee for its part in expeditiously restoring our line of credit by providing funds to restore prior year losses in the Commodity Credit Corporation. However, it is important to note that the longer term solution to this problem lies in a $5 billion increase in borrowing authority up to the authorized limit of $25 billion. Our request for this increased authority continues to be of the utmost importance.

Crop Insurance

We are moving aggressively to expand the all-risk crop insurance program. In crop year 1982, the program will be available to farmers in all 3,000 agricultural counties in 49 states and will insure 28 commodities. Insurance will be available to cover 100 percent of the acreage previously covered by disaster payments with the exception of only partial coverage for oats. The farmer participation rate is estimated at over 30 percent of insurable acreage. In crop year 1983, we anticipate that producer participation will expand to between 40 and 50 percent of insurable acreage.

Soil and Water Conservation

For soil and water conservation programs, we are proposing a substantial reordering of priorities and fundamental program changes. A recently completed study of the condition of the nation's soil, water and other related resources assigns highest priority to those activities which will reduce soil erosion so as to maintain the long term productivity of agricultural lands.

To achieve these goals, conservation technical assistance and information gathering and analysis activities are slated for budget increases. Improved effectiveness is expected as a result of the increased use of "targeting" in which our soil and water conservation efforts are directed to areas with critical resource problems.

The budget includes a new $10 million program of matching soil and water conservation grants. Grant funds for technical assistance will be made available to local units of government through state soil conservation agencies. This program was authorized in the 1981 farm bill. It is a pilot program that has multiple objectives—concentrating federal funds in those areas where problems are most critical and increasing the role and responsibility of state conservation agencies and local units of government in solving conservation problems.

Because of overall funding constraints, several programs are scheduled for cuts in spending. The fiscal year 1983 budget for watershed and flood prevention operations provides funding only for the most urgent public works construction projects. Accordingly, we do not anticipate any new construction starts. However, we do recognize that these activities constitute an important program delivery system,

and it is therefore desirable to maintain a minimum capability so that construction activities can be resumed in the future without incurring the extra cost of building a new system. Further, the watershed planning staff is maintained at 1982 levels and there will be a limited number of new planning starts.

The Resource Conservation and Development Program is slated to be terminated by the end of fiscal year 1983. This action is based on reviews conducted in previous years, which failed to demonstrate that this program has made significant progress in achieving program goals.

Finally, there are also recommendations for reductions in the Department's conservation cost share assistance programs. A recent USDA study of the Agricultural Conservation Program is the first attempt to quantify the output of conservation practices on a wide-scale basis. The study shows areas where cost-effectiveness can be improved. For instance, only about one-half of all practices were applied on land that was eroding excessively. The evaluation provides a basis for program managers to target assistance more precisely and finance some of the most important conservation work with a reduction in funding. Furthermore, the administration would anticipate landowners and state and local governments to increase their funding for conservation practices as the seriousness of the problem is more completely understood and as farm income improves and federal taxes are lowered.

Rural Credit

Reductions in the credit area are essential to the President's program for economic recovery. Unless we can reduce federal spending and treasury borrowing to support federal credit activities, we have little hope for continued economic recovery, increased private investment and renewed productivity in the future.

While our credit programs in Farmers Home Administration and Rural Electrification Administration will be reduced by over $4 billion, the total of all of the Department's new lending activity will exceed $20 billion for fiscal year 1983. In addition, we will continue to service and, where necessary, reschedule repayments for over $112 billion of loans and loan guarantees we estimate will be outstanding at the beginning of fiscal year 1983. It is readily evident from these figures that the U.S. Department of Agriculture will continue as a significant supplier of credit in rural America.

Despite the sharp reductions in most federal credit programs, we are proposing that FmHA's farm operating program be increased by $135 million for fiscal year 1983. With this increase, the program will reach a level of $1.5 billion which is almost double the level achieved in fiscal year 1981. In total, FmHA's farm loan programs are budgeted at $3.9 billion in fiscal year 1983, which is essentially the same as fiscal year 1982.

As I noted earlier, we recognize that many FmHA and other farm borrowers are currently experiencing serious credit problems, largely related to the decline in net farm income. However, we feel that these problems are near term in nature and will be resolved as the economy recovers and prices strengthen.

Mr. Chairman, I can assure you that our first priority is to keep farmers in business and that our credit policies for fiscal years 1982 and 1983 will allow us to achieve that objective.

We are proposing that FmHA's rural housing programs be reduced from $4.2 billion in fiscal year 1982 to approximately $1.4 billion in fiscal year 1983. The reduction is significant. But FmHA will minimize the impact by ensuring that truly needy households are the primary beneficiaries of the programs. This reduction is part of the administration's overall effort to curb federal intrusion into the credit markets and help relieve the pressure on interest rates, which has effectively closed the housing markets to an unacceptably high portion of rural as well as urban residents.

A modest reduction is being proposed in the water and waste disposal loan program, from $375 million in fiscal year 1982 to $300 million in fiscal year 1983. The community facility loan program will remain at the fiscal year 1982 level of $130 million. The business and industrial and alcohol fuel loan programs are proposed for termination. We believe that private investment, not public sector pump-priming, should and will increase development in these areas.

FmHA's role in providing loans for water and waste disposal systems and community facilities will be to assist communities in which such projects are essential to the health and safety of the households and only in those small, rural communities in which FmHA will function as the lender of last resort.

The Rural Electrification Administration's electric and telephone loan programs are slated for reductions from $6.5 billion currently available for fiscal year 1982 to $4.6 billion for fiscal year 1983. The budget includes a proposal to reduce the fiscal year 1982 loan guarantee authority of the electric program by $1 billion and a further reduction of loans and loan guarantees for the electric and telephone programs of $900 million in fiscal year 1983. We believe that increasing proportions of the capital needs of REA borrowers can be obtained from non-federal sources. Most of the rural telephone borrowers, approximately 70 percent, are eligible for tax benefits as are many of the largest electric borrowers. Further, this reduction will also contribute to the administration's effort to curb federal intervention into the credit markets.

Domestic Feeding Programs

The Food Stamp program will have a net reduction of $1.7 billion, from $11.2 billion in fiscal year 1982 to $9.5 billion in fiscal year 1983. This $11.2 billion level for fiscal year 1982 assumes Congressional approval of our $1 billion supplemental request to help assure that we can continue the program through this fiscal year without a benefit reduction. The reduction of $1.7 billion in fiscal year 1983 results from full conversion to the separate nutrition grant program for Puerto Rico, legislative proposals to redefine the factors used to measure income to determine benefit level and further administrative management improvements.

One key proposal is to restore the integrity of and simplify the definition of income in the food Stamp program. Income, from whatever source, should be treated equally for all households receiving benefits. For that reason we have proposed to end the current exclusion of energy assistance as household income, as well as to continue the actions of Congress last year in reducing the earned income deduction, by eliminating it altogether.

Another proposal which will yield significant savings is to increase the current benefit reduction rate from 30 percent to 35 percent. This proposal will be felt least by the households with the least income and not at all by households with no net income. In fact, the increase in the

value of the thrifty food plan, scheduled for Oct. 1, 1982, will help offset decreases resulting from the change in the benefit reduction rate.

Mr. Chairman, we are aware of this committee's continuing concern over the food stamp error rate and we are moving aggressively to solve this very expensive problem. In fact, we believe that in fiscal year 1983 it will be possible for the states to achieve a nationwide error rate of 3 percent, and for that reason we have provided no funding for overpayments or ineligible issuances above that level. Please note that 1983 will be the third year of this administration's efforts to enforce error rate sanctions and incentives which, along with improvements in state administration and technical assistance from the Department, make a 3 percent error rate an achievable goal.

The child nutrition programs will operate at a $2.8 billion level in fiscal years 1982 and 1983. Increased food costs will basically be offset by savings achieved by eliminating the summer food program that was significantly reduced in fiscal years 1981 and 1982; and replacing the school breakfast and child care programs with a general nutrition assistance grant to the states. This gives the states greater flexibility in setting their own priorities and determining the form of administrative and program management best suited for their state. The special milk program will be discontinued; however, over $600 million worth of milk will continue to be served in the school lunch program.

We are proposing to transfer the women, infants and children program, the commodity supplemental food program and the food component of the nutrition program for the elderly to the Department of Health and Human Services in fiscal year 1983. This represents a sorting out of the federal administrative role in these programs. WIC and CSFP serve a similar target population and have similar goals as the HHS program for maternal and child health. The elderly feeding program will be consolidated with other programs under the Older Americans Act serving the same target populations.

Marketing and Inspection Activities

During the Administration's budget review process, we thoroughly reassessed our pest and disease control, marketing and inspection activities and identified a number of programs which are no longer

economically justified. Other programs we have determined can better be carried out by state governments or the farmers themselves.

In the Animal and Plant Health Inspection Service, for example, we have found it is no longer practical to continue a brucellosis eradication effort and we plan to shift instead to a control program which will save $31 million in fiscal year 1983. The $91 million cost of currently operating the program far exceeds the annual economic losses from the disease. We will continue to work with the states and the farmers to minimize the infection rate, which is currently less than 1/2 of 1 percent.

In those instances where economic damage does not warrant the cost, where infestations are local, or where control technology is not yet practical, the federal role is being reduced. We are, therefore, reducing federal involvement in such pest control programs as witchweed, gypsy moth, pink bollworm, boll weevil and golden nematode.

In the Agricultural Marketing Service, we plan to begin charging for mailed market news reports so that reports will only be ordered when they adequately serve the needs of farmers.

In the Food Safety and Inspection Service we plan to improve the efficiency of our meat and poultry inspection activities and use our personnel more effectively. Legislation is being requested that would give us more discretion in performing inspection services at processing plants without sacrificing present standards of product wholesomeness. First year savings of $2 million will result from this change. By fiscal year 1987, we expect yearly savings to increase to nearly $20 million.

Mr. Chairman, this concludes my formal statement. I appreciate the opportunity to present the Department's fiscal year 1983 proposals to the committee and look forward to working with you.

I will be happy to address any specific concerns that you have.

#

Statement by Assistant Secretary of Agriculture Mary C. Jarratt before the Subcommittee on Nutrition, Committee on Agriculture, Nutrition and Forestry, U.S. Senate, Feb. 22, 1982

Mr. Chairman and members of the subcommittee:

Thank you for inviting me today to discuss the fiscal 1983 budget proposals for the food assistance programs administered by the Food and Nutrition Service.

Under these proposals, the federal government will continue to make nearly $14.5 billion available to support various health and nutrition programs and subsidize nearly 95 million meals daily. Approximately three-quarters of the budgetary reductions ($2.3 billion) are associated with increased targeting and management improvement of the federal food stamp program. The remaining savings are associated with the broader federalism budget theme, including program consolidation and increased state responsibility in setting health and nutrition priorities.

The proposed changes in food assistance programs should be viewed in the context of uncontrolled growth in a wide array of entitlement or automatic spending programs. The growth of entitlement programs has far outstripped increases in the basic indicators of need. All of the entitlement programs have been carefully scrutinized and proposals have been made to bring these programs under control.

FOOD STAMPS

The federal food stamp program is a prime example of the growth of the federal budget over the last decade. Starting as a small pilot project to replace the cumbersome food distribution program in the late 1960's, the program grew from costing less than $1 billion in 1970 to an estimated $11.6 billion in the current fiscal year. Even after correcting for inflation, the program has grown at a rate of nearly 16.0 percent per year. Participation in the program has also exploded, increasing from less than 7 million people in 1970 to over 22 million people today.

The basic thrust of the administration's 1982 and 1983 budget proposals has been to slow this rate of program growth, to simplify program administration and to target program benefits on those most in need. Also implicit in these budget proposals is the basic recognition that the program has long passed its role as a food assistance program,

and now represents one major form of federal income supplementation. With this recognition, programmatic changes designed to take into consideration all sources of income available to a household when applying for benefits is justified. Further, the 1983 budget proposals represent a transition year to 1984, when the overall responsibility for income assistance to non-aged individuals is returned to the states.

The budget proposes to make several changes in the food stamp program that will result in about $2.3 billion savings in fiscal 1983. Certain of these changes would be effective July 1, 1982, and save about $273 million in program costs during the final quarter of fiscal 1982. The new proposals include the following:

1. Increase the benefit reduction rate from 30 to 35 percent effective July 1, 1982. Currently, the benefit to which a household is entitled is reduced 30 cents for every one dollar of household income.

—$227 million savings in 1982 and $978 million savings in 1983.

2. Eliminate the $10 minimum benefit for all participants, effective July 1, 1982. If, however, the application of the 35 percent reduction reduces the benefit below $10, the participant would then receive the actual benefit.

—$32 million savings in 1982 and $138 million savings in 1983.

3. Repeal the earnings deduction, effective July 1, 1982. Currently, 18 percent of all earned income can be excluded from the calculation of household income.

—$140 million savings in 1982, and $606 savings in 1983.

4. Revise the rounding rules to round down the calculations of the thrifty food plan, deductions, and individual household allotments.

—$10 million savings in 1982 and $117 million in 1983.

5. Include all energy assistance payments as income to the household when determining eligibility for food stamps, whether the payments are made directly to households or to vendors on behalf of the household.

—$231 million savings in 1983.

6. Require job search at the time of application.

—$15 million savings in 1983.

7. Reduce error rate to 3 percent.

—$615 million savings in 1983.

8. Interaction costs. The effect of these new proposals interacting with the provisions of the 1981 Reconciliation Act and with the new proposals for aid to families with dependent children (AFDC) and supplemental security income (SSI) may increase food stamp costs by $136 million in 1982 and $530 million in 1983.

9. Institute a consolidated grant for state administration which will include, in addition to food stamp costs, the administrative expenses associated with Medicaid and AFDC. This new grant approach will save $43.3 million in food stamp costs in 1983.

10. Turning over responsibility for work requirements and job search activities to the states.

—$80.3 million savings in 1983 (a reduction of $65 million from the 1982 level).

11. Total savings in the budget request are $273 million in 1982 and $2.3 billion in 1983.

CHILD NUTRITION

The federal child nutrition programs have grown over the past decade into a proliferation of ten different programs with 37 different reimbursement schemes serving more than 26 million children. These programs typify the concerns raised recently in a report by the Advisory Commission on Intergovernmental Relations (ACIR). ACIR concludes that state and local governments have become increasingly dependent on the federal government. This dependence has curtailed administrative discretion because of a wide array of specific federal programmatic and procedural requirements.

The adminstration's fiscal 1983 child nutrition proposals are the beginning of a new federalism system designed to reestablish the balance of decisionmaking in our tripartite system of governance. The proposals consolidate a number of small categorical programs. Funding for a general nutrition asistance grant is set at nearly $500 million. The school lunch program, the largest at $2.3 billion, is maintained with no reduction in federal support. Thus, total funding for the basic child nutrition programs remains unchanged from the 1982 funding level of $2.8 billion.

The nutrition program for women, infants and children (WIC) is similarly returned to the states through its combination with the

maternal and child health services block grant. Funding for this grant will be $1.0 billion. The determination of appropriate comprehensive health and nutrition services for low-income pregnant mothers and their infants will be the responsibility of health clinics and qualified health personnel.

PROPOSED LEGISLATION

The fiscal 1983 budget request for the child nutrition programs, including special milk, reflects a $358 million reduction below the current services level as a result of the following legislative proposals.

1. Elimination of the Department of Defense overseas schools from participation in the programs. $1.1 million savings in fiscal 1983.

2. Transfer of the funding for program operations in Guam, the Commonwealth of the Northern Mariana Islands, American Samoa and the Virgin Islands to a block grant that will give each of the territories broad flexibility to fashion food assistance programs that serve the special needs of their residents. $11.7 million reduction in costs of the child nutrition programs in fiscal 1983.

3. Institution of a general nutrition assistance grant in place of the school breakfast and child care food programs. This will allow the states greater flexibility to set their own priorities in providing food assistance to children. $264.4 million savings in fiscal 1983.

4. Elimination of the summer food program. $63 million savings in fiscal 1983.

5. Lowering of state administrative expenses to reflect the institution of the grant for federal nutrition assistance and the elimination of the special milk program. $11.6 million savings in fiscal 1983 (excluding $7 million cost reduction resulting from the territorial grant proposal).

6. Elimination of the special milk program. $24 million in savings in fiscal 1983.

The changes represented in this budget reflect several primary objectives which we believe are necessary to the future well-being of the nation.

First, the effectiveness of state and local governments will be enhanced by giving them greater control over services as well as control over the resources needed to pay for them.

Second, the reform of entitlement programs to correspond with basic indicators of need and cost will be advanced. Greater latitude given to the states will create opportunities for the reduction of inequities, the elimination of overlapping and excessive benefits, the retargeting of resources to those most in need and the creation of incentives and requirements to promote more efficient Program administration.

Third, the reduction of inappropriate discretionary spending will be achieved, contributing to a firmer and more judicious control over federal expenditures.

We believe that these objectives are immensely important, and it is in this positive context that the 1983 proposals should be considered.

#

Statement by Assistant Secretary of Agriculture William G. Lesher before the Subcommittee on Agriculture, Rural Development and Related Agencies of the House Appropriations Committee, Feb. 25, 1982

Mr. Chairman and subcommittee members, it is a pleasure to appear here today. As in the past, this testimony covers in detail a broad range of subjects concerning the agricultural outlook. I am submitting a detailed account for the record, and I shall proceed with a discussion of the major issues facing the agricultural sector today.

As the outlook for 1982 comes into focus, Mr. Chairman, American agriculture continues to make unprecedented contributions to the rest of the economy. Broadly defined, agriculture is the nation's biggest industry, with assets equal to about 88 percent of the capital assets of all U.S. manufacturing corporations.

Agriculture also is the nation's largest employer. Economic activity in the U.S. food and fiber system requires the services of more than 23 million people, or about 22 percent of the labor force. Farming alone requires 3.7 million workers—as many as the combined workforce of the transportation, steel and automobile industries. One out of every five jobs in private enterprise is related to American agriculture.

Agriculture's impact on the entire economy is highly significant. The value added to farm products as they flow through the economic

system amounts to 20 percent of the gross national product. Agricultural output has increased more than 70 percent since 1950 while total input use increased less than 4 percent.

Today's farmer provides food and fiber for 6O people; 60 years ago, one farmer supplied only 10 fellow Americans with food of a lesser quality and variety. It is important for all of us to remember, Mr. Chairman, that few resources are as important to the strength of this country as the farmers who work American soil—our most precious natural resource.

The condition of the farm sector obviously is a vital concern to us all. Yet, at a time when agriculture is making record contributions to the national economy, the U.S. farm sector faces difficult financial prospects in the year ahead. The many global forces involved reflect the reality that as U.S. agriculture has become more dependent upon world markets, it has coincidentally become more vulnerable to fluctuations in the marketplace. These forces include interest rates, exchange rates, political instability, inflation, unemployment, lagging productivity and budget and trade deficits; it is important to examine some of these forces to understand the overall state of the U.S. agricultural economy.

In 1981, the United States had record overall crop and livestock production. Excellent weather and growing conditions led to record or near-record yields for the major crops. Acreage increased as well, due in part to attempts by farmers to ease worsening cash flow problems by farming more acres. Supplies of red meat, poultry and dairy products available for use in 1981 also were the largest on record, although growth in livestock products was less than in the crop sector.

Thus, we have record supplies available—but with a weakening demand. Growth in domestic demand for agricultural products in 1981/82 is being limited to less than 1.5 percent due to stagnating per capita incomes, growing unemployment and high interest rates. The sluggish outlook for the livestock sector translates into weak feed demand and further dampens crop use prospects in the year ahead.

Worldwide economic growth also has been poor. Global growth rates in 1981 lagged at 2.1 percent, and growth prospects for 1982 are forecast at under 3 percent. Growth at these rates leaves little, if any, margin for improvements in per capita incomes. By comparison, world

economic growth in the 1960's and 1970's averaged 4 to 5 percent, annually. The current global slowdown has resulted in weakened demand for agricultural products in general and imported U.S. products in particular. Foreign production also has increased due to good weather and expanded area. The centrally planned economies also have suffered lower growth rates due in part to lagging labor and capital productivity, high levels of external debt and uncertainties in Poland. Growth rates in the lower income developing countries averaged nearly 5 percent in the last decade, while in 1981 and 1982, it is estimated at only 2.8 percent.

The substantial rise in the value of the U.S. dollar also has been a critical factor. U.S. dollars now cost foreign producers 30 percent more than a year ago, and the dollar's appreciation has even wider effects through its impact on other products purchased with U.S. currency, including OPEC oil.

Despite the weakened foreign picture, we see American farmers supplying a record volume of high quality food, feed and fiber to the world. The volume of farm product exports also is record large. Agriculture's 1981 trade surplus of nearly $27 billion offset almost half of the country's petroleum trade deficit, and the 1982 surplus could be as large.

Despite these sizeable contributions to both the U.S. and world economies, however, farm incomes and the financial position of many in agriculture have deteriorated due to a tightening cost-price squeeze that is likely to continue through the spring.

While the cost-price squeeze currently depressing farm income dates back to early 1980, it has worsened since last summer. A combination of bearish supply and demand factors at play here and abroad have depressed already weak commodity prices. Farm-level prices for soybeans, corn and cotton are now, respectively, 20, 25 and 35 percent below year-ago levels and 10 percent below last fall's harvest time expectations.

Rising prices for a broad range of farm inputs—such as energy, energy-related inputs and capital—have kept production expenses at record levels, and current 1982 forecasts indicate production expenses could rise between 5 and 6 percent to nearly $150 billion. With the margin between receipts and expenses likely to narrow over the next 6

months, many farmers will have to postpone scheduled plans for buying equipment or expanding existing operations.

Given the initially weak financial position of many farmers at the start of 1982, the deteriorating income situation is likely to have broader and longer-term implications. Many farmers already have faced 2 years of depressed income as rising production expenses outstripped growing receipts.

Prices received by farmers for their products have increased less than 5 percent since 1979, while prices paid for inputs have increased more than 20 percent. A third year of limited cash flow in 1982 could translate into a more fundamental problem with serious implications for the financial health of a number of farmers carrying large debt loads.

As you can see, Mr. Chairman, the economic condition of the farm sector is subject to many forces. Through the Agriculture and Food Act of 1981, we have programs and operational latitude to better protect American agriculture from market volatility, but the legislation itself is not an instant or long-term panacea for all problems facing the American farmer today. We are doing everything in our power to provide a sustainable improvement in economic conditions in the farm sector, and we shall continue this effort. However, the immediate prospects, as you know, are not highly optimistic.

Assuredly, agriculture and economic developments in 1982 are likely to be dramatic, and the year easily could be one of marked contrasts. Markets through the first half of the year are likely to remain under pressure from the large commodity supplies and lagging world economic activity. However, available supplies of most commodities are not burdensome by historical standards.

World grain stocks at the end of the 1981/82 season will total about 15 percent of annual usage compared to 21 percent during the period of larger supplies in the late 1960's. These stocks easily could be reduced by adverse weather or rapid improvement in economic conditions, as the past few years have demonstrated. The livestock sector already is beginning to benefit from an improved price picture. The second half of 1982 does hold promise, and renewed global economic growth hopefully will provide a stimulus to demand.

A number of factors will be critical in 1982. These are illustrated in detail in the segment of testimony submitted for the record.

— Increases in 1981 cash receipts came mostly from crops. Many uncertainties underlie the cash receipts outlook, including the size of 1982 U.S. crops which will be determined largely by weather and voluntary acreage reduction participation rates.

— Production expenses are expected to rise only moderately, although energy and related input prices probably will show the smallest increases since 1977 because of slack demand and large supplies.

— Exports of U.S. farm products are projected at $42-1/2 billion, slightly below last year's record. Japan, Western Europe and Canada, combined, again will take nearly half of all U.S. agricultural exports on a dollar basis. A turnaround in world economic conditions is a key ingredient in expanding world markets.

— The Soviet Union had a poor grain harvest in 1981 for the third successive year, and utilization likely will fall to the lowest level since 1975/76. The 1981 crop is the smallest since 1975 and more than 60 million tons below plan. Official Soviet estimates have been withheld for some time, raising questions about the final output figure. Even with good crops in 1982, the USSR will be a significant player in world markets for several years.

— Record world grain production is projected in 1981/82 with record harvests of wheat, coarse grains and rice. World grain utilization is expected to show only a modest gain, limited by poor harvests in several countries and weak demand for livestock products. Stocks are expected to increase substantially in the United States and will weigh heavily on the market in the near term.

— World production of major oilseeds will be near the record reached in 1979/80. Soybeans account for more than half the expansion; most of the gain is in the United States. World soybean use will not match the increased output, causing stocks to build to near the record reached at the beginning of 1980/81. Southern Hemisphere crop developments and renewed demand in Western Europe are significant factors in these markets.

— World meat output may show another small gain in 1982 with most of the increase coming from poultry. Even with slight increases in total meat production in the last few years, per capita consumption has dropped because the increased output has failed to keep pace with population growth. Economic growth is the greatest stimulus to meat

consumption and thus, indirectly, to increased grain utilization. A more prosperous world economy could turn both markets around.

— Record production, relatively weak demand, sharply rising stocks and lower prices highlight the cotton situation. An improved supply-demand balance is expected for 1982/83, but stocks are expected to remain large.

— World sugar production is estimated to be sharply above last season's poor level. Stocks are expected to increase by nearly a fifth by the end of the season. U.S. sugar use has declined dramatically in the past decade due to increased use of high fructose corn syrup.

— Retail food prices in the United States rose 7.9 percent in 1981, down from the 8.6 percent rise the previous year. The share of expenditures for food in the United States continues to be smaller than in other countries.

In the longer-term perspective of 2 to 5 years, the income position of farmers and the financial health of the sector should improve significantly. The Agriculture and Food Act of 1981 and Secretary Block's recent announcement of voluntary acreage reduction programs for the 1982 crops of wheat, feed grains, cotton and rice should help ease the current supply problem by next fall. Market factors here and abroad which are depressing commodity demand also should become a source of strength later this year, pointing to economic recovery in the United States and the major importing countries. As a result, commodity prices are likely to strengthen—possibly quite significantly—by early 1983. In the livestock sector, where prices already have strengthened recently, cutbacks in supplies coupled with demand enhanced by economic recovery and the tax cut, should provide further improvement in prices. Moreover, easing inflation over the next year should slow increases in production costs and improve farmers' income.

In summary, Mr. Chairman, the income position of farmers and the financial health of the sector must and will improve significantly in the longer-term perspective. This nation's agriculture has a comparative advantage to the rest of the world, both in natural and manpower resources—an advantage which must be retained. It is essential that we protect and enhance our resource base while ensuring the economic viability of the nation's farmers.

Our natural resource base must be protected through effective soil and water programs which provide necessary incentives for proper, long-term management. Agricultural research must be accelerated to ensure the most effective and efficient use of these resources. Agricultural productivity has long been a cornerstone of U.S. growth, and if our economy is to stay strong, agriculture must continue to be prosperous.

The American farmer has demonstrated a unique capability to produce well in excess of domestic needs. As a result, the economic viability of the farm sector increasingly has become a function of world markets. Secretary Block and I are committed to providing greater market access for U.S. products and enhancing our competitive posture in the world marketplace. We must reassure the world that we are reliable suppliers to protect existing markets while seeing new ones. The new farm legislation provides the means to move agriculture closer to the marketplace. Yet, to prosper, our farmers must use marketing skills equal to those they possess as producers; we are committed to assisting them in this transition. We also must ensure that the world marketplace is open to our products to protect the economic strength and competitive ability of our farmers.

Thank you, Mr. Chairman and members of the subcommittee, for this opportunity to review the agricultural outlook, and I would be happy to answer any questions you may have.

#

News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

USDA ANNOUNCES SUGAR PRICE SUPPORT PROGRAM

WASHINGTON, Feb. 19—Secretary of Agriculture John R. Block today announced a purchase program under which the U.S. Department of Agriculture will offer to buy raw cane sugar at a national average price of 16.75 cents per pound and refined beet sugar at 19.16 cents per pound.

Block said USDA later this year will replace the purchase program with a loan program.

Under the program, the price supports will be made available to growers through eligible sugar processors. An eligible processor is one who agrees to pay at least the minimum specified support price to any producer who delivers sugar beets or sugarcane to the processor's plant.

Under the purchase program, the USDA's Commodity Credit Corporation will offer to purchase from eligible processors sugar processed from Dec. 22, 1981, through March 31, 1982.

Purchase agreements may be filed by processors through April 30, 1982. Processors must inform CCC of their intent to sell by Oct. 1, 1982. However, title to the sugar will not pass to the CCC before Nov. 1, 1982, Block said.

He said USDA will offer a sugar loan program beginning Oct. 1, 1982 for the 1982 crop of raw cane sugar.

Details of the purchase program will be published in the Federal Register within the next few days and public comment invited. Comments must be received by the USDA within 30 days after publication in the Federal Register to be assured of consideration.

Comments should be sent to the director, cotton, grain and rice price support division, USDA-ASCS, P.O. Box 2415, Washington, D.C. 20013.

Written comments will be available for public inspection in the office of the director, room 3630, of USDA's South Building.

#

USDA REJECTED ONE OUT OF EVERY 30 IMPORTED CAGE BIRDS LAST YEAR

WASHINGTON, Feb. 23—One out of every 30 cage birds brought into this country through commercial or federal quarantine stations last year was refused entry by U.S. Department of Agriculture inspectors because the birds were infected with exotic Newcastle disease.

Dr. Sam Richeson, a veterinarian concerned with bird imports for USDA's Animal and Plant Health Inspection Service, said exotic Newcastle is a highly contagious and deadly disease to poultry and other birds. Of 653,939 birds brought into this country, 21,383 were refused entry because of the disease.

Richeson said 25,277 birds were dead on arrival at the stations and another 82,711 died during the mandatory 30-day quarantine from a multitude of causes, including exotic Newcastle disease. These figures also include the deaths of large numbers of travel-stressed finches, Richeson said.

During fiscal year 1981, Richeson said, 2,174 personally-owned pet birds were brought into the country through nine special USDA import stations. Of these, 101 died during quarantine or were refused entry because of exotic Newcastle disease.

Another 2,491 birds were abandoned at the border or seized by U.S. Customs agents. Of these, 1,926 were held in quarantine for at least 45 days before being sold at auction or donated to zoos. The rest died during quarantine from stress and other disease conditions, including exotic Newcastle disease.

Exotic Newcastle disease is not a health hazard to people who eat poultry and eggs, Richeson said. However, it can cause a transitory eye inflamation or flu-like symptoms in people who handle infected birds.

Although exotic Newcastle disease affects all birds, it is most damaging to poultry and can kill all the birds in an infected flock. The disease will kill many types of pet birds, but others can become infected without showing any signs of the disease. These birds, Richeson said, can carry the virus and shed the infection—thereby posing a constant threat to poultry and other birds.

#

SOUTH CAROLINA TO KEEP STATE MEAT AND POULTRY INSPECTION

WASHINGTON, Feb. 23—South Carolina has advised the U.S. Department of Agriculture that it will continue funding its meat and poultry inspection programs, and contrary to earlier indications, the responsibility will not be transferred to the USDA.

Donald L. Houston, administrator of USDA's Food Safety and Inspection Service, said South Carolina had informed USDA early this year that it was no longer able to fund its inspection programs for meat and poultry products sold only within South Carolina.

Because of that action USDA would have had to assume responsibility for the South Carolina programs Feb. 22, but, Houston said, this will not now be necessary.

Houston said under the federal meat and poultry inspection acts, any state must give up its inspection programs if it cannot enforce requirements at least equal to those at the federal level.

"Most of the 21 states that have given up their programs have cited financial reasons," Houston said.

#

USDA IMPLEMENTS NEW THREE-STAGE SWINE BRUCELLOSIS PROGRAM

WASHINGTON, Feb. 25—The U.S. Department of Agriculture is implementing a new three-stage method for validating states as free of swine brucellosis.

Eighteen states, Puerto Rico and the Virgin Islands—previously rated as "validated free"—are now designated as "Stage III" states, according to Paul Becton, director of brucellosis eradication for USDA's Animal and Plant Health Inspection Service.

Eleven states are listed in "Stage II," the intermediate level, and 12 are in "Stage I," the entry level. Nine states do not qualify for Stage I, have no programs or their programs fall short of entry requirements.

The three-stage system was recommended by the U.S. Animal Health Association, an organization representing state animal health agencies and major segments of the livestock industry. It allows for

better overall evaluation and permits individual states to measure progress in comparision with others, Becton said.

The Stage III—or top-level—states include California, Colorado, Idaho, Iowa, Maine, Minnesota, Montana, Nevada, New Hampshire, North Dakota, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, Washington, Wisconsin and Wyoming plus Puerto Rico and the Virgin Islands.

Stage II, or intermediate level, states are: Alabama, Arizona, Arkansas, Connecticut, Delaware, Georgia, Hawaii, Illinois, Louisiana, New York and Virginia.

Stage I—entry level—states are Alaska, Florida, Kansas, Kentucky, Maryland, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Oklahoma and South Carolina.

The nine states with no programs or programs that don't meet entry requirments are: Indiana, Missisippi, Missouri, Nebraska, New Mexico, Oregon, Tennessee, Texas and West Virginia.

To qualify for Stage I, a state must test slaughtered breeding swine at slaughter for brucellosis—if facilities for slaughtering such swine exist, Becton said. The state must identify test-eligible swine so reactors can be traced to herds of origin, and there must be a system in place for reporting test results on swine from out of state.

To advance to Stage II, a state must be properly handling known infected and suspicious herds to eliminate infection and prevent spread of the disease. This includes quarantine and testing with prompt removal of infected animals.

Advancement to Stage III means a state has successfully carried out all program requirements for locating and eliminating brucellosis in its swine herds, and no infection is known to exist.

Becton said producer cooperation continues to be important for detecting and eliminating brucellosis.

"Abortion is one of the most common signs of the disease," he said. "Livestock producers who suspect brucellosis should call their veterinarian or a state or federal animal health official."

#

U.S. AND JAMAICA SIGN BARTER AGREEMENT FOR DAIRY PRODUCT - BAUXITE EXCHANGE

KINGSTON, Jamaica, Feb. 25—The United States and Jamaica today signed a barter agreement for the exchange of $13 million worth of U.S. dairy products for an equal amount of Jamaican bauxite, the first government barter agreement in 15 years.

Under the agreement, the United States will exchange 7,238 tons of nonfat dry milk and 1,905 tons of anhydrous milkfat for 400,000 tons of bauxite, according to Alan T. Tracy, general sales manager and associate administrator of the U.S. Department of Agriculture's Foreign Agricultural Service.

Prime Minister Edward Seaga signed the agreement for Jamaica; Tracy signed for the United States.

Tracy said the agreement will benefit both countries. It provides an outlet for U.S. government-owned dairy products and contributes to our own national defense posture while it also contributes to Jamaica's strategy of relying to the maximum on production and exports to fuel its economic recovery, he said.

Bauxite is the basic raw material used to produce aluminum, a significant component in military weapons and aerospace systems.

President Reagan last November directed the Federal Emergency Management Agency to procure during fiscal 1982 about 1.6 million tons of Jamaican bauxite for the national defense stockpile. Today's agreement is part of that acquisition program.

The General Services Administration will acquire the remaining 1.2 million tons of bauxite through direct purchase and exchange of excess stockpile materials. A separate agreement for this transaction also was signed today in Jamaica by Seaga and Roy Markon, commissioner of GSA's Federal Property Resources Service.

Delivery terms are free along side (f.a.s.) U.S. Gulf ports; the delivery period is May through December for the nonfat dry milk and July through February for the anhydrous milkfat.

The last barter contact for strategic materials was signed in 1967. It provided for delivery of Australian rutile—a mineral—in exchange for cotton and other commodities owned by USDA's Commodity Credit Corporation. Between 1950 and 1967, about 60 strategic materials—

valued at over $1.2 billion—from more than 50 countries were added to government stockpile as a result of USDA barter activity.

#

JANUARY CONSUMER PRICE INDEX INDICATES FOOD PRICE INCREASE

WASHINGTON, Feb. 25—Although January food costs rose 1.2 percent, as reported in the Consumer Price Index released earlier today, food prices this year are expected to rise less than the general inflation rate, Assistant Secretary of Agriculture William Lesher said today.

As in 1981, most of the 1982 rise in food costs will come from higher marketing costs. Farm prices will exert little upward pressure, Lesher said.

"Prices for food bought in grocery stores rose 1.3 percent in January, while prices for food away from home were up 0.7 percent," Lesher said. "The increases in the past month were largely confined to higher vegetable prices combined with rising marketing costs. Large supplies generally continued to depress farm prices."

Food prices this year are expected to rise less than the general inflation rate for the fourth consecutive year. As in 1981, higher food marketing costs will be the source of most of the 1982 food price rise, with changes in farm commodity prices exerting little upward pressure.

The major cause of the January food price rise was higher retail prices for fresh vegetables, reflecting significant increases in both farm prices and marketing charges. Lettuce prices rose sharply again in January (up almost 50 percent) because of reduced acreage nationally and insect damage to the California crop. Prices for tomatoes were up 20 percent mainly because of reduced supplies caused by the Florida freeze.

In other areas, Lesher said:

— Meat prices fell 0.3 percent as increased production and lower prices for beef offset reduced production and higher prices for pork.

— Dairy product prices rose 0.1 percent.

— Prices for cereals and bakery products rose 0.8 percent, mainly reflecting higher marketing costs.

— The fats and oils CPI rose 0.2 percent, as lower peanut butter prices partly offset price increases for other fats and oils.

— The sugar and sweets CPI was up 0.6 percent, reflecting higher marketing costs and a pass-through of rising raw sugar prices in recent months. Higher sugar costs also pushed up soft drink prices.

— Roasted coffee prices rose 2.6 percent reflecting declining stocks, expectations of smaller world coffee production this year, and perhaps stronger demand due to the cold weather in January.

— Prices for fish and seafood were up 3.8 percent as cold weather in January reduced supplies.

Food prices in the first quarter this year are expected to rise faster than during most of 1981, averaging about 2 percent higher than in the fourth quarter of 1981. This increase is largely due to reduced supplies and higher prices for fresh vegetables and frozen concentrated orange juice, caused by the January freeze in Florida and smaller vegetable acreage nationwide. However, the basic situation of large food supplies and weak consumer demand still persists for most of the agricultural sector, which will limit retail price movements for most foods through midyear.

Winter production of Florida vegetables was reduced by the January freeze in Florida which affected the tomato, green pepper, bean, squash, and cucumber crops. Damage from the freeze appears to be smaller than occurred during the 1981 freeze, and larger vegetable imports from Mexico this year will offset some of the supply reductions. However, retail fresh vegetable prices will likely remain high until late winter and spring when acreage that was replanted following the freeze will be harvested.

Production of frozen concentrated orange juice was also reduced by the January freeze in Florida. Rather than a 5 percent increase in production—which had been expected prior to the freeze—frozen concentrated orange juice production is now expected to be down 17 percent from the 1981 level. Although prices will be higher than expected before the freeze, large carryover stocks and continued large imports from Brazil will moderate the impact of the freeze on prices.

January Retail Food Prices, Percent Changes for Selected Items

Items	Not seasonally adjusted	Seasonally adjusted	January 1981 to January 1982
	December 1981 to January 1982		
All food	1.2	0.7	4.6
Food away from home	0.7	0.3	6.7
Food at home	1.3	1.0	3.7
Meats	-0.3	-0.6	-0.7
Beef and veal	-0.4	-0.5	-2.1
Pork	0.2	0.3	2.8
Poultry	1.3	1.5	-4.1
Eggs	-4.3	-2.2	
Fish and seafood	3.8	3.1	4.3
Dairy products	0.1	*	2.4
Fats and oils	0.2	*	0.5
Cereals and bakery prods.	0.8	*	6.4
Fruits and vegetables	6.6	5.5	14.4
Nonalcoholic beverages	1.5	1.0	2.2
Sugar and sweets	0.6	*	-6.2
Other prepared foods	0.7	0.5	8.0

* No seasonally adjusted index available.

#